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Fourth Quarter Unemployment Reaches 13.9 Percent

[1](#)1. (U) Fourth quarter 2008 unemployment rose 2.6 points to 13.9 percent, the highest rate since 2000. The number of unemployed increased by 609,100 from the previous quarter and now is over 3.2 million. The 13.9 percent fourth quarter rate is a steep increase from the 8.6 percent rate from a year earlier. The sharp rise in unemployment is in part due to Spain's residential construction crash, leaving many in the construction and associated sectors without jobs. Coupled with the effects of the financial crisis and the global economic downturn, 2008 was a difficult year for Spain. With unemployment expected to continue to rise, this year will be even more difficult. (National Statistics Institute, All Media, 1/23)

EC Predicts Longer and More Severe Downturn in Spain

[1](#)2. (U) Just three days after the GOS released revised and more negative macroeconomic forecasts, the European Commission released its own estimates, which predict an even longer and slightly deeper downturn for the Spanish economy. Instead of the GOS's 1.6 percent GDP contraction for 2009, the EC is predicting a 2 percent contraction with the recession continuing into 2010, contrary to the GOS prediction of growth for 2010. Instead of GOS predictions of a 15.9 percent unemployment peak in 2009, the EC estimates 16.1 percent unemployment with an increase to 18.7 percent in [1](#)2010. European Commissioner for Economic and Monetary Affairs Joaquin Almunia (a Spaniard) downplayed the differences in estimates but indicated that the recovery would take more time because of the difficulties related to Spain's housing sector adjustment. (All media, 1/20)

## GOS Calls for More Consumption, Buying Spanish, to Save Jobs

13. (U) Calling for a joint effort by all Spaniards to spur an economic recovery, President Zapatero noted that lower interest rates and less expensive oil should provide some segments of the population with more disposable income and that "the citizenry as a whole should continue to have confidence and consume as usual" to help avert further job losses. Minister of Industry, Tourism, and Trade Miguel Sebastian echoed Zapatero's call while urging people not seriously affected by the crisis to purchase products made in Spain and travel within the country instead of abroad. According to Sebastian, such measures could save some 120,000 jobs. Unemployment recently topped the 3 million mark and is now estimated at 13.9 percent and rising. (Comment: Zapatero's public remarks over the past year have consistently indicated an awareness of the importance of consumer confidence, so much so that earlier this year he left himself open to opposition charges of not understanding or admitting the depth of the economic difficulty.) (Expansion 1/19, 1/20)

## S&P Downgrades Spain

14. (U) On January 19, Standard & Poor's lowered its sovereign debt credit rating for Spain from AAA to AA, based on concerns about the structural weaknesses in the Spanish economy, and expectations that "public finances will suffer in tandem with a decline in Spain's growth prospects." Interestingly, S&P maintained its AAA long-term rating for the Basque and Navarra Autonomous Communities, albeit under credit watch with negative implications. The downgrade has the effect of increasing borrowing costs for the GOS, now that the GOS will have to offer higher interest rates to

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compensate investors for the increased risk of purchasing its debt. GOS debt is now seen as riskier than debt from Spain's largest private companies BBVA, Santander, and Telefonica (as per credit default swap prices). Illustrating the concerns of Spain's structural weaknesses, the GOS had to pay 1 percent over what Germany would have had to pay in its debt issuance last week. (All Media, 1/19, S&P website)

## Banks Move to Increase Liquidity

15. (U) The GOS successfully held its third liquidity auction January 21, lending Spanish banks over 4 billion euros in exchange for high grade mortgage-backed debt. The "FAAF" program, aimed at promoting liquidity and therefore encouraging bank lending to businesses and consumers, was heavily subscribed, with banks and "cajas" (savings banks) wishing to borrow double the amount offered. Separately, La Caixa, Spain's third largest financial institution, made plans to issue 2.5 billion euros in 10-year bonds and may take advantage of another GOS liquidity stimulus measure to guarantee bank debt (ref). (Comment: Most Spanish banks and cajas are still considered to have a relatively strong financial position, although there are indications that higher loan delinquencies are beginning to have an effect.) (Expansion 1/22, Cinco Dias, 1/22)

## Acciona to Construct Latin America's Largest Wind Farm in Mexico

16. (U) Construction and renewable energy firm Acciona has begun construction in Oaxaca, Mexico on what will be the largest wind farm in Latin America. With a planned output of 250 MW, the electricity generated from the park will be enough to supply 500,000 consumers. Mexican President Felipe Calderon inaugurated on January 22 the first phase of construction. (ABC, 1/23, Reuters, 1/23).  
CHACON